

**MINUTES
of the
FOURTH MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**October 15, 2008
State Capitol
Santa Fe**

The fourth meeting of the Investments and Pensions Oversight Committee for the 2008 interim was called to order by Senator John Arthur Smith, chair, on Wednesday, October 15, 2008, at 10:00 a.m. at the State Capitol in Santa Fe.

Present

Sen. John Arthur Smith, Chair
Rep. John A. Heaton, Vice Chair
Rep. Donald E. Bratton
Sen. Joseph J. Carraro
Rep. Larry A. Larrañaga
Sen. Mary Kay Papen
Rep. Henry Kiki Saavedra
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Absent

Sen. Phil A. Griego
Sen. Carroll H. Leavell

Advisory Members

Rep. Andrew J. Barreras
Gary Bland, State Investment Council
Bob Gish, Public Employees Retirement
Association
Sen. Stuart Ingle
Bob Jacksha, Educational Retirement
Board
Rep. Miguel P. Garcia
James Lewis, State Treasurer
Olivia Padilla-Jackson, State Board of
Finance
Rep. John Pena
Rep. Sheryl Williams Stapleton
Rep. Eric A. Youngberg

Sen. Pete Campos
Sen. Carlos R. Cisneros
Rep. Patricia A. Lundstrom
Rep. Jane E. Powdrell-Culbert
Sen. Leonard Lee Rawson
Sen. Michael S. Sanchez
Sen. H. Diane Snyder

Staff

Michelle Aubel, Legislative Finance Committee (LFC)
Doris Faust, Legislative Council Service (LCS)
Jeret Fleetwood, LCS
Cleo Griffith, LCS

Aurora Sanchez, LFC
Doug Williams, LCS

Guests

The guest list is in the meeting file.

Wednesday, October 15

The minutes of the September 8, 2008 meeting were approved.

SHARE Update

ô Anthony Armijo, Department of Finance and Administration (DFA)

Mr. Armijo presented an update on the status of SHARE, including the implementation of different modules, performance enhancements and the necessary maintenance upgrades.

Mr. Armijo also reported on the progress that has been made in improvements to the Public Employees Retirement Association (PERA) interface with SHARE.

Senator Carraro asked if the Department of Information Technology (DOIT) is cooperating with the DFA. Mr. Armijo responded that Marlin Mackey, secretary of information technology, is fully cooperating.

Representative Bratton stated that the PERA interface needs to allow for a seamless transfer of employees between one agency and another.

Representative Larrañaga asked if the planning for SHARE was not done properly in the beginning. Mr. Armijo responded that there was no provision for the creation of an implementation team, which was assembled from volunteers from state agencies. When the system was turned on, all the volunteers went back to their respective agencies.

Representative Larrañaga asked what will happen if the appropriation request of \$11.5 million is not approved. Mr. Armijo stated that the basic operation of SHARE will continue; however, problems concerning the speed of operation will not be fixed.

Representative Varela asked how many data errors are in the PERA system. Ms. Sanchez stated that there are currently 35,000 errors that total approximately \$9 million.

The Market Crisis, Bailouts and the Impact on Investments

ô Stephen Nesbitt, Chief Executive Officer, Cliffwater, LLC

ô Bob Gish, PERA

Mr. Nesbitt provided an overview of the market crisis. He stated that, nationally, pension funds have lost approximately one-half trillion dollars and that funded ratios will

decline from 90% to 70%. This is the largest decline since 2002. In comparison, the crash of 1929 caused a loss of 85% of the value of stocks and the market took 15 years to recover.

Mr. Nesbitt stated he believes that the stock market recovery will correlate with the national economic recovery. The economy is very likely in a recession at present and the underlying cause is a reduction in consumer spending.

Mr. Gish stressed that diversification is still the key to recovery of the PERA portfolio rather than attempting to time the market.

Senator Smith asked about the status of Lehman Brothers. Mr. Nesbitt responded that he believes that Lehman Brothers was a casualty of public opinion opposed to government bailout.

Senator Smith asked about the real estate market and when financial institutions will return to sound lending practices. Mr. Nesbitt responded that, in the past, banks and lending institutions held mortgages and had a stake in their lending practices. Beginning in 2000, a process developed whereby banks and lending institutions sold mortgages immediately, recaptured their assets and had no downside in the process. This practice needs to change because the cause of the economic downturn started with the housing crisis and will not improve until the housing crisis turns around.

Representative Bratton observed that when a public pension fund providing defined benefits cannot pay the benefits, the result is increased taxes. He also observed that the \$700 billion government bailout plan will be financed by printing money. This will result in higher inflation. Mr. Nesbitt noted that inflation over the past 20 years has been about 3%, even with an infusion of money following the savings and loan crisis. The reason is because the Federal Reserve withdrew liquidity when the economy and markets turned around. The result kept inflation under control.

Juvenile Corrections Officers Retirement Plan

ô Paula Fisher, Juvenile Corrections Officer, Children, Youth and Families Department (CYFD)

Ms. Fisher presented a request for enhanced retirement for juvenile corrections officers just like that already enjoyed by adult corrections officers. There are 250 officers statewide. Corrections officers must staff facilities 24 hours a day, seven days a week and on holidays.

She also stated that the enhanced retirement would only affect 10 officers who are preparing to retire in the near term.

Representative Varela asked for an updated actuarial study given the current market crisis. Carter Bundy, AFSCME, stated that a new study can be prepared by November.

Senator Smith agreed that the equity argument for juvenile corrections officers is extremely valid. The question is the cost to state government. He stated that he would like to see an actuarial study that looks out four years.

Senator Smith suggested that the legislature will probably also receive requests for enhanced retirement from the motor transportation police and district attorneys.

Investment Performance Before and After the Federal Rescue Program

- ô Gary Bland, State Investment Council (SIC)
- ô Bob Gish, PERA
- ô Bob Jacksha, Educational Retirement Board (ERB)
- ô James Lewis, State Treasurer

Representatives of the investment agencies and the state treasurer summarized the impact of recent market fluctuations on investment performance.

Since June 30, 2008:

- É the permanent funds have lost \$2.5 billion and now have assets of \$12.9 billion;
- É PERA has lost \$1.5 billion and now has assets of \$9.7 billion; and
- É ERB has lost \$1.5 billion and now has assets of \$7.2 billion.

The Credit Crisis Impact on New Mexico

- ô Dan White, LFC

Mr. White presented an analysis of the impact of the credit crisis on New Mexico.

Senator Carraro asked about collusion among rating agencies. Mr. White responded that Connecticut has filed a lawsuit against Moody's, Fitch's and Standard and Poor's.

Representative Bratton suggested that the drop in natural gas prices may be influenced by increased Canadian production. Both Canada and New Mexico sell primarily to California.

The committee adjourned at 3:30 p.m.